



IOWA CHAPTER

MidAmerican Energy Company's Misguided Pursuit of Nuclear Power: removing barriers, providing incentives, and skirting the existing regulatory process

In 2010, MidAmerican Energy announced that it was engaging in a study to select sites for a nuclear power plant.

Nuclear energy is an expensive option and is unable to compete with the other sources of power. A decade will pass from the point of planning a nuclear power plant, to obtaining licenses to build it, to constructing the plant and generating the first electricity.

Indeed, MidAmerican Energy has shown that it has problems justifying the cost and has taken several measures that remove barriers, provide incentives and skirt the existing regulatory process. Without these special dispensations, nuclear power would not be competitive with the other forms of power generation, including wind and solar.

How rates are set

In Iowa, the investor-owned utilities, including MidAmerican Energy, must get approval from the Iowa Utilities Board (IUB) for any rate increases. The reason for this is that MidAmerican Energy is a monopoly. Consumers in the MidAmerican service territory must buy their electricity from MidAmerican and cannot take their business to another utility. In order to protect the customers, the IUB reviews all requests from MidAmerican for rate increases. This is a formal proceeding. The customers are represented by the Consumer Advocate, a part of the Attorney General's Office. Any other group, company or individual can also intervene in the proceedings if they are affected by MidAmerican's rate request. Once a request for a rate change is made, experts for each party review the request. A formal hearing is held. The IUB Commissioners make a decision to allow the rate request or to modify the request.

MidAmerican Rate Freeze

MidAmerican has not raised the rates on its electricity since 1995. In fact, the Iowa Utilities Board has decreed a rate freeze through 2013.

Part of the reason for the rate freeze is that MidAmerican had more generating capacity than it needed to satisfy the demand for electricity. In fact, MidAmerican is selling excess electricity to utilities outside of Iowa.

MidAmerican Energy Asks the Iowa Legislature for Special Preference for a Nuclear Power Plant Siting Study

In 2010, after realizing the nuclear study was going to be very expensive and knowing there was a rate freeze, MidAmerican Energy asked the Iowa Legislature to approve a three-year study to examine the feasibility of building a nuclear power plant in Iowa, with the customers paying for this study up-front and without the prior approval and review of the IUB. Governor Chet Culver signed the bill into law as Iowa Code Section 476.6 paragraph 22.

Although at the end of the study period, the IUB will review the cost of the study, this was an end-run around the Utilities Board. This bill would add additional costs to the ratepayers' bills each year for the next three years -- the average residential customer would pay an additional \$4, the average commercial customer would pay an additional \$15 and the average industrial customer would pay \$1,100 per year for the study.

MidAmerican is going to use the additional money to determine the best locations in Iowa to site a nuclear power plant, will review and select the nuclear reactor technology and determine the financial needs to build the plant.

MidAmerican Energy Asks the Iowa Legislature for Special Preference to Pay for the Nuclear Power Plant

In 2011, MidAmerican provided the Iowa Legislature with a proposed bill that was loaded with "incentives" to help MidAmerican finance and build a nuclear power plant in Iowa. As reported in the Des Moines Register, William Fehrman, President of MidAmerican Energy, said the incentives would settle how rates are going to be determined and provide information to potential investors. See Des Moines Register article on March 15, 2011.

Clearly these incentives will significantly affect the consumer and the rates they are paying for electricity. However, MidAmerican has provided absolutely no information on how the rates will be affected by this legislation. At the March 17, 2011, Senate Commerce Subcommittee meeting, Fehrman estimated that the customer rates would rise 10 percent over 10 years. When Senator Robert Hogg asked Fehrman if he would agree to putting a 10 percent cap in the bill, Fehrman said that he would not accept that and that it would be a deal-breaker. So it is obvious that a 10 percent growth in electric rates is a low estimate. MidAmerican provided no details on how the 10 percent figure was determined.

With very little information, the Legislature was requested to usurp the role of the IUB and the Consumer Advocate. No one was left with the role of reviewing the "incentives" provided in the legislation with an eye to what is in the best interest of the consumer.

The Legislature was asked to pass this bill before the study was even completed. Bear in mind that at the point when MidAmerican asked the Legislature to pass the bill, MidAmerican had not determined a proposed location for the power plant nor had it determined the cost of the proposed plant. MidAmerican executives had determined they would use Small Modular Reactor technology and had identified the vendors who provided the solutions. In fact, MidAmerican President Fehrman indicated that the proposed sites for the plant would be made at the end of 2011. However, MidAmerican was very well aware that the ability to raise funds to finance the project would need assurances. So the function of this bill was to provide the assurances to the financiers.

For all other utility construction projects, ratepayers begin paying the bill for the construction of the power plant when it starts producing electricity. MidAmerican wants to begin charging customers for the cost of the facility before it is even built and producing power. What this means is that the customers would be providing some of the capital to build the plant along with bonds bank notes. The shareholders would not bear any risk by paying for it through a lower rate of return. Furthermore, the legislation dictated to the IUB how the cost of capital was to be determined, which would be of benefit to the shareholders at the expense of the customers. Should the nuclear plant not be built, the legislation dictates how the costs to that point will be allocated to the customers. It also dictates how MidAmerican will be able to recover the costs of shutting down coal plants.

MidAmerican justified this special legislation by saying that the legislation would establish “the regulatory construct and regulatory certainty needed for Iowa to attract the significant capital required for a nuclear facility and to position MidAmerican Energy Company to favorably compete for U.S. Department of Energy funds, which may become available for nuclear generation projects.” See “Nuclear Legislation,” Power Point presentation by MidAmerican Energy.

Knowing that the public has a right to challenge an IUB decision in state court and knowing that the court might alter the IUB ruling, MidAmerican included a requirement that “any judicial reversal or remand of a rate-making order be implemented prospectively to avoid refunds and allow recovery of costs the utility had committed to prior to the date of a judicial order.” See “Nuclear Legislation,” Power Point presentation by MidAmerican Energy.

Furthermore, MidAmerican’s requested “legislation exempts an applicant for rate-making principles for a nuclear generating unit from demonstrating to the IUB that the public utility has considered other sources for long-term electric supply and that the facility is reasonable when compared to other feasible alternative sources of supply.” See “Nuclear Legislation,” Power Point presentation by MidAmerican Energy.

Clearly the Iowa Legislature did not have the experts, detailed study and testimony that the IUB would have in making a decision on how the costs associated with siting and building a nuclear plant would be paid for by the ratemaker. Furthermore, the customer interest was not represented by the Consumer Advocate in a full and complete manner like the proceedings before the Iowa Utilities Board would allow.

Federal subsidies

Clearly MidAmerican is hoping for additional subsidies from the federal government in order to pay for the nuclear power plant. See “Nuclear Legislation,” Power Point presentation by MidAmerican Energy.

Federal law, called the Price-Anderson Act, sets up an insurance pool that the owner of a nuclear plant pays into each year. Additionally, the Act provides a low cap on the liability the owner of a nuclear plant must face when an accident occurs. The balance of the liability is then paid for by the United States taxpayers.

Conclusion

The history of construction of nuclear power plants is one of cost overruns as well as running behind schedule in completing projects. Therefore, it is difficult to convince financiers to invest in a new nuclear power plant. In an attempt to encourage investors, MidAmerican is asking the Iowa Legislature to modify the laws.

All of this points to the fact that MidAmerican cannot build the nuclear power plant in Iowa without special incentives and skirting the existing regulatory framework for power plants. MidAmerican is doing everything it can to ensure that the nuclear plant is guaranteed a profitable rate and pays no penalty if the plant is not successful. The high cost of MidAmerican's nuclear power will be borne by the customer and the taxpayer. MidAmerican is privatizing the profits and socializing the costs.

Iowans should invest in affordable clean energy solutions – wind, solar, energy efficiency and conservation – to power our future. And Iowans should not invest in nuclear power.

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